

Message Text

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45

ACTION NEA-16

INFO OCT-01 EUR-25 ISO-00 FEA-02 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-03 COME-00 DODE-00 EB-11 FPC-01 H-03

INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 FRB-03 AF-10

PA-04 PRS-01 USIA-15 DRC-01 /205 W

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R 021007Z AUG 74

FM USINT BAGHDAD

TO SECSTATE WASHDC 1110

INFO AMEMBASSY ABU DHABI

USINT ALGIERS

AMEMBASSY AMMAN

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMEMBASSY RABAT

AMEMBASSY SANAA

AMEMBASSY TEHRAN

AMEMBASSY TEL AVIV

AMEMBASSY THE HAGUE

AMEMBASSY TRIPOLI

AMEMBASSY TUNIS

AMEMBASSY VIENNA

C O N F I D E N T I A L BAGHDAD 0459

E.O. 11652: GDS

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PAGE 02 BAGHDA 00459 051054Z

TAGS: ENRG, IZ

SUBJECT: IRAQI OIL POLICY

REF: BAGHDAD 376

1. SUMMARY: ABRUPT GOI POLICY CHANGE IN JUNE THAT HENCE-FORTH OIL EXPLORATION AND PRODUCTION DEVELOPMENT WOULD BE POSSIBLE ONLY ON STRAIGHT SERVICE CONTRACTS WITH NO CONCESSIONAL PRICE OR OPTION TO BUY MAY REFLECT DIFFERENCES WITHIN GOI AND MAY PORTEND CHANGES IN KEY PETROLEUM PERSONNEL.

2. FRG CHARGE EICKHOFF TOLD ME AUGUST 1 THAT HE BELIEVED DEMINEX MAY HAVE PLAYED KEY ROLE IN IRAQI DECISION. IRAQIS HAD BEEN NEGOTIATING WITH DEMINEX FOR TWO YEARS AND WERE SHOCKED BY DEMINEX DECISION IN MID-MAY TO REFUSE IRAQI OFFER OF SERVICE CONTRACT IN EXCHANGE FOR 6 PERCENT INTEREST ON FUNDS EXPENDED AND RIGHT TO BUY PERCENTAGE OF NEW OIL AT MARKET PRICE (AS SET BY GOI, NOT RIGHT OF FIRST REFUSAL). GOI HAD COUNTED HEAVILY ON DEMINEX ACCEPTANCE OF NEW TERMS AS MODEL THAT OTHER OIL COMPANIES WOULD THEN HAVE TO ACCEPT. THIS WAS APPARENTLY STRATEGY OF INOC AND MINPET HAMMADI. WHEN DEMINEX REFUSED, RCC REACTED BY CANCELLING NEGOTIATIONS WITH ALL BIDDERS. HAMMADI IS NOW ON EXTENDED VACATION AND THERE ARE RUMORS THAT HE MIGHT BE REPLACED AS MINISTER.

2. ANOTHER FACTOR THAT MAY HAVE INFLUENCED ABRUPTNESS OF RCC DECISION WAS DESIRE TO STEM CRITICISM OF RAPIDLY GROWING WESTERN ECONOMIC PRESENCE. SOVIETS ARE PARTICULARLY DISPLEASED BY THIS DEVELOPMENT.

3. CHANGE MAY BE TEMPORARY. EICKHOFF SAID INOC PEOPLE TELLING DEMINEX NOT TO BURN BRIDGES, KEEP COOL, AND BE READY TO REOPEN NEGOTIATIONS IN A MONTH OR TWO.
LOWRIE

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